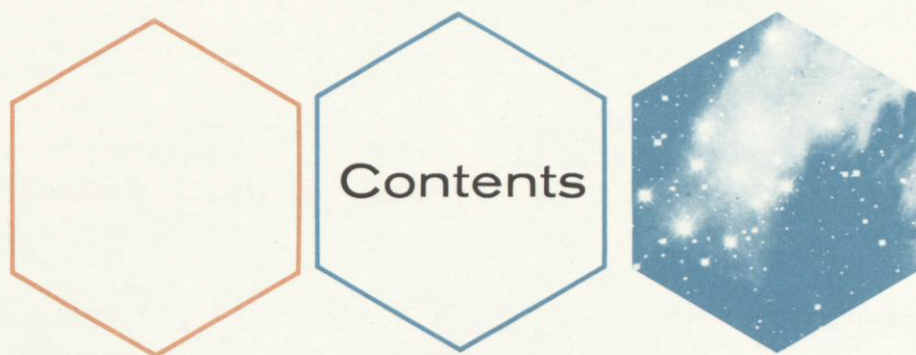


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BOEING / ***1960*** ***ANNUAL*** / ***REPORT***



Boeing 1960 Annual Report



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THE COVER: Five areas of Boeing effort are represented by (left to right) a Minuteman firing, a Vertol 107 helicopter, a shock tube experiment, the B-52H bomber and a 720B turbofan jet airliner.	

Annual and special meetings of Boeing stockholders will be held at the offices of the company, Seattle, Washington, on May 2, 1961. Formal notices of the meetings, the proxy statement and form of proxy will be sent to stockholders about April 3.

Highlights

Operating Summary

	1960	1959
Sales	\$1,554,572,612	\$1,648,802,758
Earnings before taxes on income	\$51,762,100	\$26,427,402
Taxes on income	\$27,300,000	\$13,684,000
Net earnings	\$24,462,100	\$12,743,402
Dividends paid	\$9,052,905	\$7,360,826
Net earnings per share	\$3.07	\$1.60
Dividends per share	\$1.14	\$0.92
Percentage of earnings before taxes on income to sales	3.33%	1.60%
Percentage of taxes on income to sales ..	1.76%	0.83%
Percentage of net earnings to sales	1.57%	0.77%

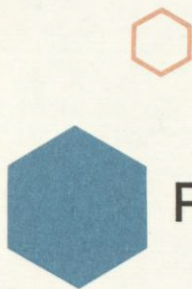
Position at Year End

Working capital	\$200,069,655	\$204,799,940
Ratio of current assets to current liabilities	1.87 to 1	1.64 to 1
Stockholders' investment	\$236,993,425	\$221,560,408
Number of shares outstanding	7,971,647	7,970,640
Stockholders' equity per share	\$29.73	\$27.80
Backlog	\$2,139,000,000	\$2,018,000,000

General Information

Total wages and salaries	\$556,059,987	\$579,247,316
Average number of employees	81,925	92,542
Gross additions to plant and equipment ..	\$27,083,935	\$18,088,695

1959 data include Vertol Aircraft Corporation.



Review of the Year

TO THE STOCKHOLDERS:

During the year the company continued to strengthen its capabilities in the broad aero-space field and further improved upon its position as a leading supplier of commercial jet transports to the airlines of the world.

Although sales were slightly below those for the previous year, favorable developments on the commercial 707-720 jet transport programs resulted in a substantial improvement in earnings.

Sales for the year 1960 were \$1,554,572,612. Net earnings of \$24,462,100 were nearly double those of 1959 and were equivalent to \$3.07 per share of common stock. Of major significance was the recognition in 1960 of the last impact on earnings of the loss on the 707-720 jet transports.

Major military programs contributing to 1960 sales included the B-52 bomber, KC-135 jet transport-tanker, Bomarc area defense missile, Minuteman ICBM and the Dyna-Soar space glider. Current military planning on these programs and firm orders for commercial jet transports indicate that 1961 sales should be somewhat above those reported for 1960.

During the year, the company made three major decisions with respect to the introduction of new commercial transport aircraft:

The decision to proceed with production of the Model 727 short-to-medium range transport;

The decision to offer a turbofan engine powered version of the 707 Intercontinental jet transport capable of efficient operation over very long distances;

The decision to proceed with the production of the Boeing-Vertol Model 107 helicopter.

With the introduction of these aircraft, the company's product line of modern aircraft covers virtually all airline route requirements from the longest intercontinental routes to short inter-city and airport-to-city flights.

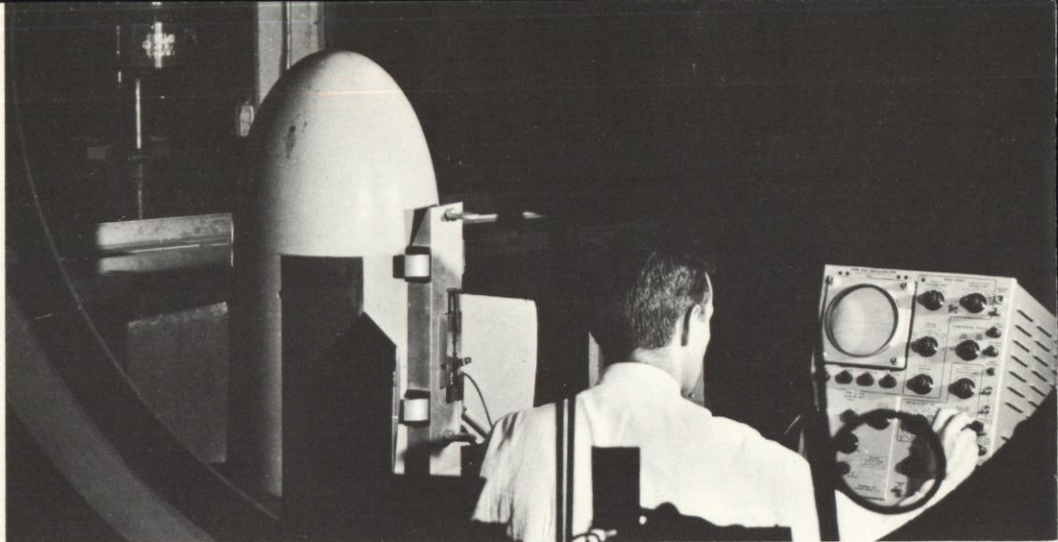
The receipt during 1960 of orders for 64 additional Model 707-720 aircraft and initial orders for 80 Model 727 aircraft attests the high degree of acceptance of Boeing jet transports by the airlines and the traveling public. Since the year's end, additional orders for nine 707-720s and twelve 727s have been received. Orders for the company's jet commercial transports now total 364 units, with 179 still to be delivered.

The Air Force announced in February of 1961 the award to Boeing of a program calling for production of 30 C-135 jet transports.

With the change in administration, the fiscal 1961-62 military procurement budget presented by the outgoing administration must be considered tentative and subject to change. This budget included substantial allocations for the Minuteman, KC-135 and Dyna-Soar programs.

Although present funding carries the B-52 and Bomarc programs into the latter months of 1962, there was no provision in the 1961-62 budget for either program. An evaluation of the improvements in performance and capability of the B-52 "H" model and the military requirements for it may, however, result in an extension of this important program. A reassessment of the threat posed by enemy long-range aircraft similarly could alter planning with respect to Bomarc defense missiles.

Wind sondes—an exotic area of Boeing research—are checked by Boston laboratory worker



The company is actively engaged in, or anticipating, competitions for a wide variety of military research, development and production contracts. Such competitions include two potentially large programs for the military forces: a supersonic short take-off and landing fighter-bomber and elements of Typhon, a Navy surface-to-air system for fleet protection against airborne threats, including missiles.

During the past few years considerable attention has been given to improvement of the organizational structure of the company. A number of important steps have been taken in the direction of decentralizing operating and new business development functions.

Subject to policy direction and over-all long term guidance from the headquarters office, division managers have responsibility for the exploitation of specific product objectives. This has permitted an effective allocation of managerial abilities among the divisions and, at the same time, the concentration of specialized technical and sales capabilities in vital new business areas.

Changes in product emphasis and organization structure to meet the new challenges of the air and space age have been accompanied by equally marked shifts in the composition of the firm's work force. Although employment remained relatively stable through the year—at

approximately 82,000 employees—the trend continues toward a greater proportion of engineering, scientific and technical skills, with a decline in the number of production employees.

While the company has been actively competing on a current basis for additional military and commercial business, the challenges that face us by reason of major technological advancements relating to aero-space products and the substantially increased competition for such products have not gone unheeded.

The actions taken to extend the capability of the company in science and technology and to furnish modern facilities are discussed in later sections of this report. Your management is aware that the long-range success of the company depends heavily upon the two-fold capability of conceiving superior military and commercial products and of producing and delivering such products on schedule and at the lowest cost.

On January 23, 1961, the company sustained serious loss in the death of Paul Pigott, a member of the Board of Directors. Mr. Pigott, president of the Pacific Car and Foundry Co., first served on the Boeing Board from 1936 to 1942 and returned in 1957. In addition to his valuable contributions as a director of your company Mr. Pigott was known nationally for his activities in business, governmental and educational circles.



Military Aircraft

While seemingly there may be an ebb and flow of international tensions, in reality the threat remains constant. Without doubt the existence of a strong United States counter-striking force has been the primary deterrent of any threat to the peace.

Principal arm of that counter force is the B-52, the only operational very long range jet bomber in the arsenal of the Strategic Air Command. The progress of the B-52 through eight minor and major model changes is characteristic of Boeing military programs and of aircraft and missile programs generally. Product growth is a highly significant factor.

The B-52, introduced into service in 1955, has now progressed to the "H" model which was phased into the Wichita Division production lines in 1960. The "H" model, equipped with turbofan engines, has an unrefueled range of more than 10,000 miles. Through its ability to carry and launch air-breathing Hound Dog or ballistic Skybolt missiles, in addition to conventional bombs, the B-52H will be able to strike targets 500 to 1,000 miles beyond its normal penetration range.

In addition to production of B-52s the Wichita Division has substantial contracts for in-plant and field modification work on B-52s already in service.

Current funding on the B-52 program will extend production well into 1962. The company

is hopeful that there will be further extensions of this important program.

The KC-135 jet tanker-transport continues to be a most successful program. More than 400 KC-135s have been delivered to the Air Force by the Transport Division.

The mission reliability record of the KC-135 and its excellent operating characteristics have earned praise from top Air Force officers and individual pilots. In short, customer acceptance has been extremely high.

The 72 KC-135s provided for by fiscal 1961 funds will extend deliveries into the Fall of 1962. Provision for additional procurement is included in the 1961-62 fiscal budget.

As stated earlier, the Air Force ordered 30 C-135A aircraft—cargo-transport version of the KC-135—in February, 1961. They will be assigned to the Military Air Transport Service as rapid cargo, troop and medical evacuation carriers. Production on the order will extend into mid-year, 1962.

As to the future, we expect sales to continue for a number of years. Although the KC-135 now is used primarily as a tanker, the company contemplates other uses which would exploit its long range, speed and basic design adaptability. This plane could serve as a carrier or platform for reconnaissance or surveillance systems or, with some modifications, as an aerial tanker for the B-70 bomber.



The KC-135 tanker-transport has proved so satisfactory that new Air Force orders specify troop carriers of same basic design

First line of national defense in the skies still is formed by Boeing B-52 bombers and KC-135s to provide fuel for world range

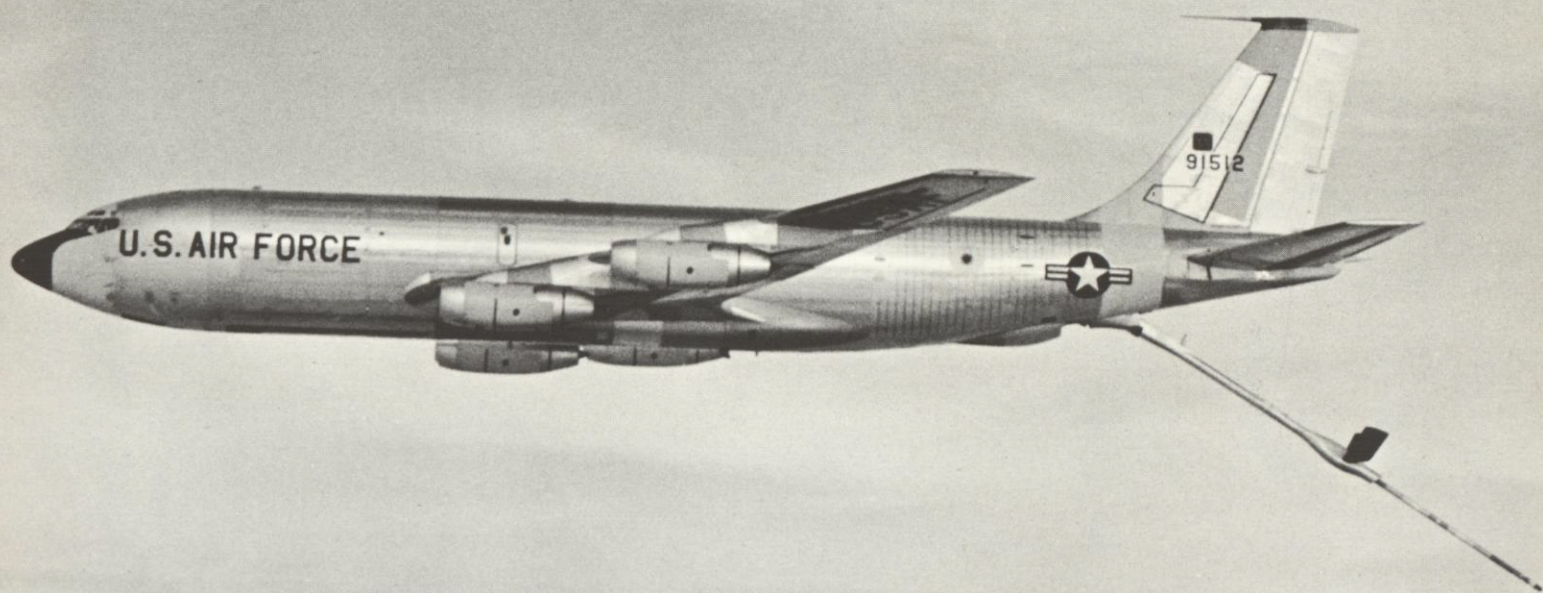
Missile platform as well as conventional bomber with turbo-fan engines, the B-52H rolled out at Wichita fitted with dummy Skybolt test missiles

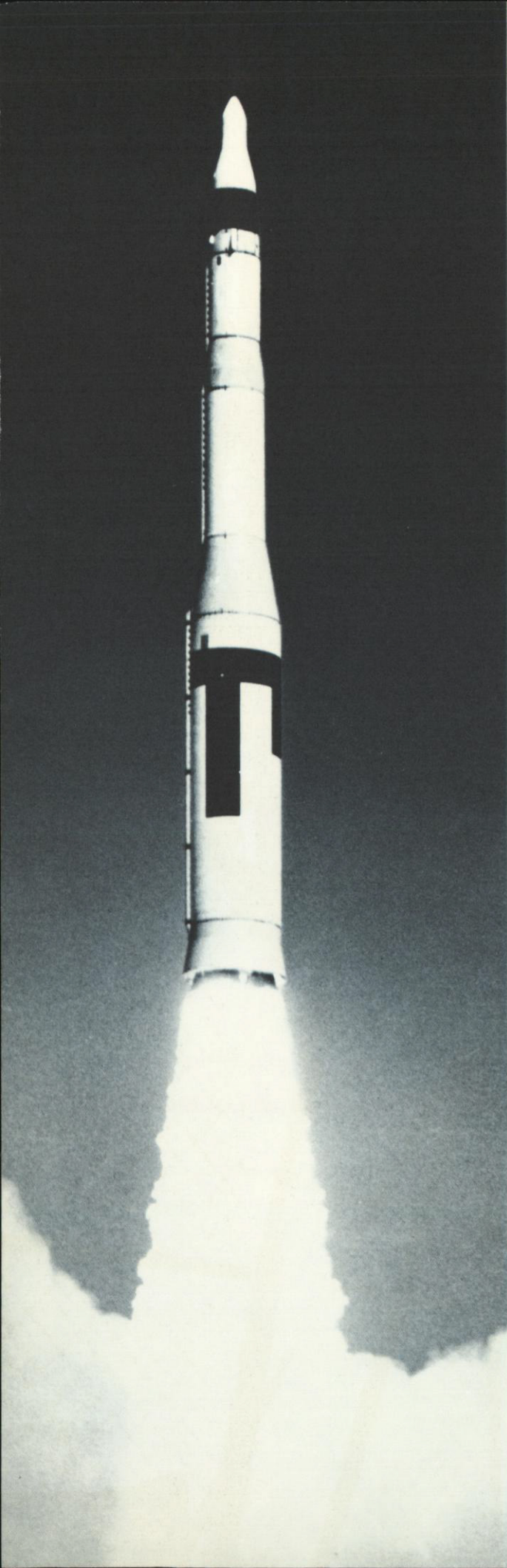
In the area of new military business, the company is prepared to enter competition on an advanced performance tactical fighter-bomber.

At the Vertol Division in Morton, Pennsylvania, work is in progress on 10 Chinook (YHC-1B and HC-1B) helicopters for The United States Army, which announced a production order for 18 more HC-1Bs in February, 1961. The Chinook is powered by two turbine engines and will carry 33 battle-equipped troops or 5¾ tons of materiel 100 nautical miles. A rear

loading feature permits bulky cargo such as major components of the Pershing missile system.

Also in February, the Navy announced that the Vertol Division had won its competition for an assault helicopter to be used by the U. S. Marine Corps. The division's entry was the twin-rotor, twin-turbine-powered Model 107. Potential applications are being demonstrated to other U. S. military services and discussions are underway with interested foreign military establishments.





Minuteman, an intercontinental ballistic missile, passed its first firing test with unparalleled success



Missiles and

"Urgency—with care" was the tone and substance of work on three major missile and space programs under way during 1960. They were Minuteman, intercontinental ballistic missile; Bomarc, area defense missile, and Dyna-Soar, research and development space glider.

Twenty seven months of intense effort on Minuteman culminated on Feb. 1, 1961, with successful test firing of the first missile from Cape Canaveral. Immediately following the firing, General Thomas D. White, Chief of Staff of the U. S. Air Force, wired Boeing: "The highly successful launch of the first Minuteman today is a significant demonstration of our progress in missile technology and particularly emphasizes the advances we have made in large solid propellant systems. This Minuteman flight was the first in the history of the free world in which a complete, multi-stage intercontinental missile, with all sub-systems installed and operating, was successfully tested on its initial flight. These major accomplishments can be directly attributed to the superior technical planning and outstanding program management continuously demonstrated by the members of the military-industrial Minuteman team."

Minuteman will provide the nation with the deterrent force of nuclear-armed ballistic missiles capable of being launched from underground "silos", or from railroad trains constantly shifting on the nation's rail network. The potential enemy would find it extremely difficult to knock out Minuteman. Despite its sophistication, Min-

Bomarc defensive missiles
went into service to
protect East Coast cities
from airborne attacks

Space Vehicles

uteman is the first ICBM system to reverse the constantly increasing cost trend of previous systems. Greater deterrent power at less cost will be achieved with Minuteman.

As associate prime contractor to the Air Force, Boeing is responsible for missile assembly and test and integration of the entire weapon system. The company designs communication, transportation and mobile launch systems and manufactures launch control, monitoring and security items, between-stage structures, test equipment and instrumentation. In addition, Boeing has a broad responsibility, covering a wide technological range, to assure that Minuteman bases become operational on schedule.

Assembly of the Minuteman missiles will be accomplished by the company in a government plant at Ogden, Utah. Preparations also are under way at Vandenberg Air Force Base, California, for future firings in the test series. Work is already proceeding at the first hardened and dispersed missile sites in Montana. As these various programs become fully activated, company personnel assigned to Minuteman will be stationed at a number of locations throughout the United States. In addition to its present work on Minuteman, the company is investigating advanced strategic missile systems based on Minuteman technology.

Bomarc, the area defensive missile system, is now installed and in operational readiness at five bases from Maine to Virginia. Five additional bases are being completed in New York, Michigan, Minnesota, Ontario and Quebec.



During the year, the Bomarc "B" missile—a longer-range, solid-fuel version—was approved for quantity production by the Air Force. First "B" missiles were delivered in November.

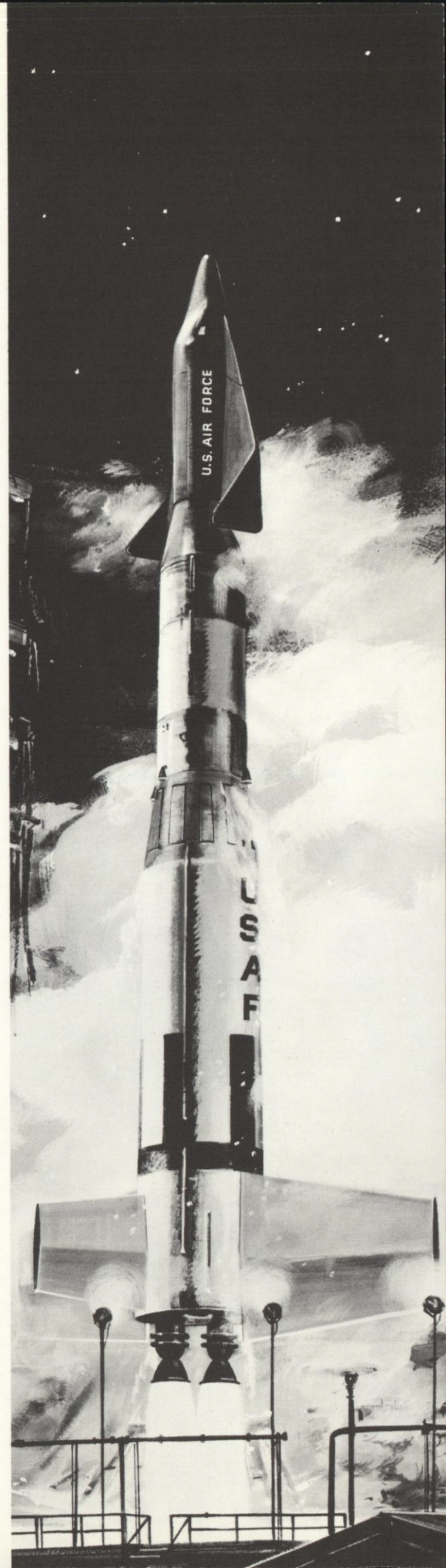
The intensive missile flight test program continued through the year. Bomarc "Bs" have intercepted supersonic missiles, F-80 jet fighters and B-47 jet bombers making mock attacks on U. S. shores. Intercepts have been made at distances well over 300 miles and from altitudes of 20,000 to 70,000 feet. Closing speeds in some tests have been four times the speed of sound, requiring that every element of the weapon system work to perfection, and pointing up the technical know-how and skills required in production of the missile system.

Base construction for both Bomarc and Minuteman has been an increasingly important aspect of the company's missile activities. A separate Base Installation Department, numbering well over 1,000 employees, carries out this phase of the company's missile activity.

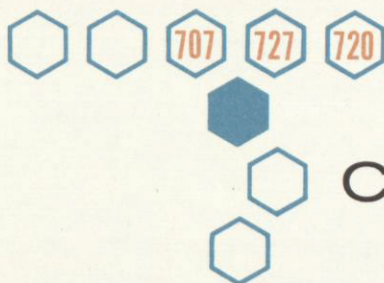
Dyna-Soar—our major space program—has been described by the Air Force as "the most important research and development project we have . . . the first step toward practical man-in-space flight." Boeing is a system contractor for the Air Force. The National Aeronautics and Space Administration is participating in technical development. Company responsibility includes design, manufacture and test of the glider portion of the system and a broad coordinating function with respect to the booster, launch complex, range instrumentation, etc.

During 1960 the company received approval of its design for the delta-wing glider. Construction, to include entirely new heat-resistant materials capable of withstanding atmosphere re-entry temperatures, will begin in 1961. Flight tests of Dyna-Soar gliders are expected to begin within three years. Manned, sub-orbital flights will follow.

The experience gained now in programs such as Minuteman, Bomarc and Dyna-Soar will be invaluable in later space-age programs. The company expects to make specific follow-on proposals, including space rendezvous and satellite reconnaissance systems.



Dyna-Soar, a vehicle to carry man into space and back, was a major program for company



Commercial Aircraft

The revolution set in motion by introduction of the passenger jet continues to gain momentum. In 1960, commercial and pleasure travelers had come to accept as standard the spanning of the nation or an ocean in half the time required only a year or two earlier. A chain reaction has resulted.

Executives of established airlines, seeing the enthusiastic reception of jet travel on longer routes, are planning to extend service to medium and short stages, thus bringing the speed and convenience of jet travel to many more cities. Many smaller nations also are displaying a desire for advanced jet equipment.

In early December, after many months of consideration—especially of the financial risk involved—the company announced that it would produce a short-to-medium range jet transport, the 727. Eastern and United Air Lines simultaneously signed agreements, each to purchase 40 of the new aircraft. The combined order was the largest in the history of commercial aviation. In February, 1961, Deutsche Lufthansa of Germany ordered 12 of the new planes, giving Boeing its first 727 success in Europe against intense competition from French and British manufacturers.

The 727's engines will be mounted at the rear of the fuselage, which will present a new silhouette in the skies with a T-tail at the top of a vertical stabilizer. In other respects the 727 bears close resemblance to the 707 and 720 aircraft. It will have an identical upper body section and many parts and systems will be interchangeable with those of other members of the 707 family, resulting in economies both of manufacture and airline maintenance.

The new airplane will operate from runways as short as 5,000 feet on airline route segments of 150 to 1700 miles. Direct operating costs are estimated as low as \$1.30 per mile and accommodations will vary from 70 to 114 passengers. The basic price of the 727 is approximately \$4,200,000. The company expects to obtain a substantial share of sales in the market for short-to-medium range jets, presently estimated to be approximately 900 units in the 1961-1970 period.

Meanwhile, the airplanes which established Boeing firmly in the commercial field were proving their appeal to the airlines. New customers since the last annual report include Avianca, of Colombia; Eastern; El Al, of Israel; Western; Ghana Airways, and Ethiopian Air Lines—with Northwest Orient Airlines, ordering six 720B models in March, 1961, as the most recent. Since their original orders, thirteen customers have placed re-orders. They are American, Air France, Air-India, Braniff, Continental, Eastern, El Al, Lufthansa, Pan American, Qantas, TWA, United and Western.

The Model 720 medium-range transport was introduced into airline service in the Spring of 1960 and is currently operated domestically by United and American Airlines, overseas by Irish International Air Lines.

At the end of December, 175 Boeing jets were in operation, flying the colors of 20 airlines. The Boeing fleet had carried eleven and one-half million passengers on routes circumnavigating the globe. The total of all Boeing jet transports delivered or on order stood at 343.

An improved version of the Intercontinental jet transport—the 707-320B—was announced during the year. First order, for five aircraft with

an option for five more, was placed by Pan American World Airways. The new Boeing will be equipped with an advanced turbofan engine and will incorporate new type leading and trailing edge flaps. It will carry a 40,000-pound payload more than 4,700 nautical miles, a 15% increase over the present 707-320 straight-jet Intercontinental. The latter is currently the world's longest range jet airliner.

Economic forecasts continue to outline the promise of major developments in the movement of cargo by jet transport. Accordingly, the company made its first offering to airlines, during 1960, of an advanced cargo jet developed from the 707-320 model.

A recent product of the Vertol Division is the Model 107 twin-turbine helicopter. It has particular application as a consequence of the impact of the passenger jet transport—the problem of rapid movement of large numbers of passengers from airport to city or between closely located cities. A prototype of the vertical lift aircraft, capable of carrying 25 passengers at cruising speeds in excess of 150 miles per hour, has been demonstrated to potential customers here and abroad.

The division is building five Model 107s for New York Airways, which also holds an option for five more. Proposals for the 107 also have been submitted to foreign governments and airlines and arrangements have been made for manufacture of 107s in Japan by Kawasaki Aircraft Company. Firm orders have been received from Kawasaki for two aircraft and components for eight additional units which are required for implementing production in Japan.

Looking to the future, when advanced technology will forge a requirement for passenger travel at supersonic speed, the company continues research in the design and engineering phases of commercial supersonic aircraft. First costs inevitably will be high and the initial market limited. However, the company intends to stay in a position to compete for its share of transport business when the supersonic phase of passenger travel begins.



Announcing the 3-engined 727, Boeing rounded out its jet transport family and entered short-to-medium range field

Newest jet airliner in service was Boeing's medium-range 720, using either conventional or turbo-fan engines



The Boeing-Vertol 107, a twin-engined helicopter to carry 25 passengers, was ordered by U. S. and Japanese buyers

Boeing Jets Around the World

CUSTOMER	707-120	707-120B	707-220	707-320	707-320B	707-420	720	720B	727	TOTAL
AIR FRANCE				20						20
AIR-INDIA						4				4
AMERICAN	*25	1					*10	15		51
AVIANCA								2		2
B O A C						15				15
BRANIFF			5				3			8
CONTINENTAL	5									5
CUBANA	2									**2
EASTERN							15		40	55
EL AL						3				3
ETHIOPIAN								2		2
GHANA						2				2
IRISH							3			3
LUFTHANSA						5		8	12	25
NORTHWEST								6		6
PAN AMERICAN	6			26	5					37
QANTAS	*7	3								10
SABENA				5						5
SOUTH AFRICAN				3						3
T W A	15			12						27
UNITED							29		40	69
VARIG						2				2
WESTERN								4		4
TOTALS (Commercial)	60	4	5	66	5	31	60	37	92	360
U. S. AIR FORCE	3	(VC-137A)								3
F. A. A.							1			1
TOTALS	63	4	5	66	5	31	61	37	92	364

* Will be modified to "B" Version
 ** Leased by Boeing to Western Air Lines





Research

In the rapidly changing aero-space industry, a key asset of any successful company is its technical capability. Tomorrow's business is largely based on technological studies being made today. It is for this reason that your company puts heavy emphasis on research—basic research in the broad areas of science and applied research directed toward product development and improvement.

Ten years ago—or even five—very few could have predicted that Boeing today would have major contracts for an ICBM-Minuteman or for a space glider—Dyna-Soar. However, the research and study carried on in the past prepared the company for the role it plays today. Similarly, products and areas of interest in 1970 cannot accurately be predicted today, but through research the company is preparing for whatever the requirements may be five to 10 years hence.

In 1960 the Boeing Scientific Research Laboratories moved into new facilities, permitting expansion of its staff and fields of investigation. Personnel housed in the new building are engaged in research in flight sciences, plasma physics, geo-astro physics, mathematics and solid state physics. In all categories, the primary purpose is to do basic research and to keep abreast of similar research throughout the world.

At Boston, Allied Research Associates, Inc., a wholly-owned subsidiary, conducts research and development studies for numerous private and governmental customers.

Within the company's operating divisions, principal research areas include supersonic jet transports, VTOL and STOL (vertical and short take-off and landing) aircraft, advanced missiles and space vehicles.

In addition, each of the divisions carries on continuing research looking toward improvement of its products and processes.

Physically, Boeing possesses the most com-

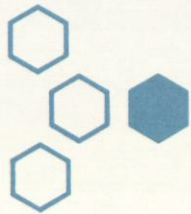
plete laboratory and development facilities in the aero-space industry. Included are the \$40 million Developmental Center; subsonic, transonic and supersonic wind tunnels, and the new Scientific Research Laboratories. Specialists in highly technical fields from all over the world are finding in these laboratories the freedom to pursue new areas of inquiry which stimulates the scientific mind and leads to fruitful discoveries.

Properly to exploit the fruits of research, any organization also must maintain adequate parallels of technical skills and facilities. With both corporate and divisional research and laboratory facilities, Boeing possesses the capability—in depth—to conceive advanced designs and to develop and produce the resulting systems.

Illustrative of such ability is the company's position in electronics. Company activities in electronic research and design include counter-measures, enemy electronic environment, radar-optical systems, infrared, radio navigation, antenna development, semi-conductor applications, electrical materials, miniaturization and many others. Manufacturing produces components, sub-systems, total systems and test gear.

Electronics are a major element in practically all of the company's products—missiles, space craft, commercial and military aircraft. It is the company's responsibility to take the sophisticated electronic products of many different suppliers and make them work as unified systems with the highest degree of reliability. Where suitable equipment is not available, the company must design and build its own.

Although the company does not have an electronics division as such, it does have two specialized electronic manufacturing facilities and more than 10,000 employees in electronic and electro-mechanical assignments. Recognizing that electronic requirements will increase, we expect to increase capabilities in these fields.

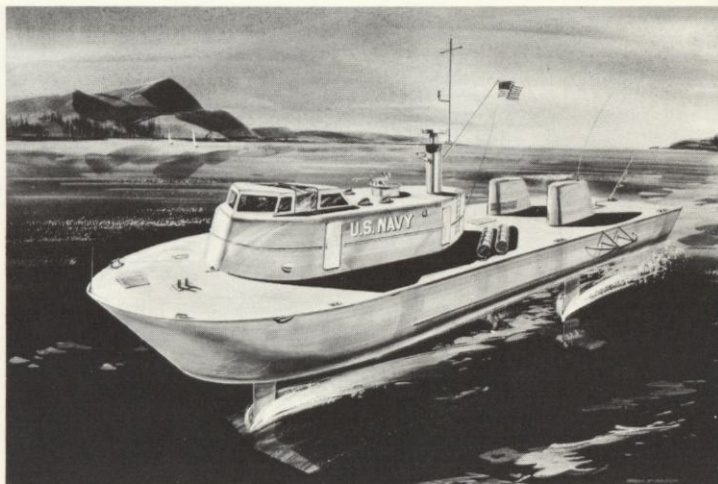
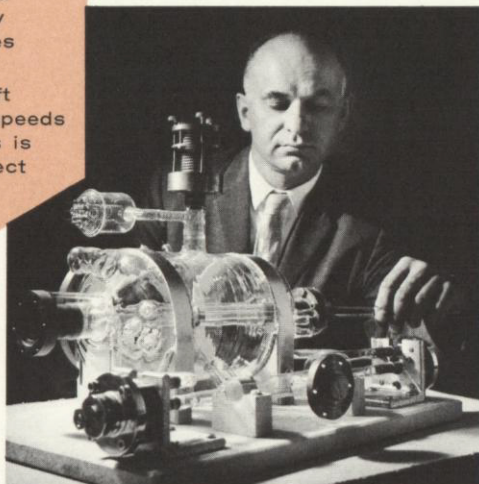


Boeing Scientific Research
Laboratories now are
housed in ultramodern facilities

Other Programs

Scientific equipment is built to individual order by laboratory engineering services

Navy hydrofoil craft to reach 45-knot speeds in off-shore patrols is new company project



While effort was directed primarily to its major product lines, the company also engaged in additional programs covering a number of product or service areas including hydrofoils and gas turbines.

In the highly important field of anti-submarine warfare, the Aero-Space Division is building a hydrofoil patrol boat under Navy contract and is carrying on studies of other hydrofoil applications and of warning and decoy devices.

The Industrial Products Division made further improvements in versions of its gas-turbine engines, which are being tested and evaluated in such new fields as fire-fighting equipment, fuel-pumping installations and various marine applications. More than 200 of the division's gas turbine turbo-starter units are in service with airlines throughout the world. The same engines used in these units also are in production for the Navy's new anti-submarine drone helicopters.

A new organization, Boeing Associated Products, was established to exploit the by-products of technical progress in the several divisions—inventions and process developments which have potential use beyond the company's own requirements.

Over the years the company has developed outstanding capabilities with respect to the design of certain specialized equipment and the performance of certain technical services; and the company remains alert to opportunities to

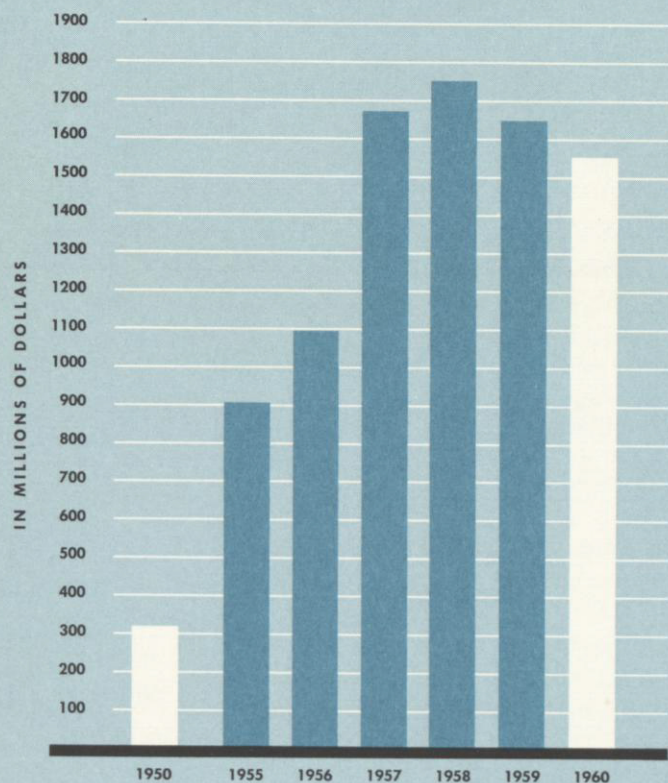
exploit such capabilities fully. For example, Boeing Applied Computing Services, at Wichita, offers many phases of numerical control service, including preparation of tapes for machine programming of tools, parts, dies and templates. The Aero-Space Division has developed over the last 12 years an outstanding antenna design capability. To capitalize on this experience an antenna department has been formed to offer design and construction of air-borne and heavy ground installed antennae of specialized and sophisticated types.

Beyond the continental United States, the Boeing name has been carried to nearly all nations of the free world by the company's family of commercial jet aircraft. In both traditional and new markets overseas there exist opportunities for sale of products and services other than jet transports.

In recognition of the growing opportunities in foreign markets, an Office of International Operations has been established. The office is charged with assuring that the company's overseas activities place Boeing in those markets of maximum potential yield, with products or services which the company is uniquely equipped to provide. An existing subsidiary was expanded in November through organization of Boeing of Canada, Ltd., with offices at Arnprior, Ontario, and Montreal, Quebec, to broaden the company's interests in that nation. Company officers and leading Canadian citizens were named to the board of directors.

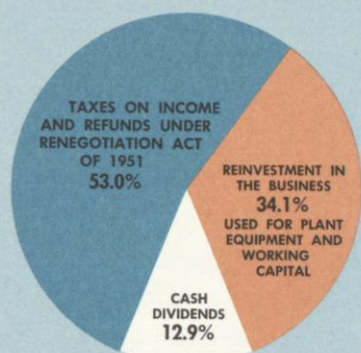
Sales

1950-1960



Disposition of Earnings*

1956-1960



*TOTALING \$297,164,492 BEFORE TAXES AND ACTUAL AND PROJECTED REFUNDS UNDER THE RENEGOTIATION ACT OF 1951

Financial Review

Sales for the year totaled \$1,554,572,612, as compared to \$1,648,802,758 for the year 1959. Of the total sales, military aircraft accounted for \$594,490,000, or 38%; missile and space programs \$464,403,000, or 30%; and commercial programs \$495,680,000, or 32%.

Net earnings after federal and state income taxes for 1960 were \$24,462,100, or \$3.07 per share. This compares with net earnings of \$12,743,402 in 1959 and \$1.60 per share. Net earnings per dollar of sales increased from 0.77 cents in 1959 to 1.57 cents in 1960. Sales and earnings for 1959 have been adjusted to give effect to the acquisition of Vertol Aircraft Corporation.

The increase in earnings experienced during the year was attributable in large measure to favorable developments on the commercial 707-720 jet transport programs, both the receipt of additional orders and significant improvements in over-all production cost trends.

As in the last several years, heavy charges were made against earnings for research, developmental, administrative and other general overhead costs applicable to commercial programs. However, such costs for the year 1960 were offset

to a substantial extent by commercial program "book profits", i.e., the difference between sales prices and inventory costs. With respect to the 707-720 programs specifically, fourth quarter book profits exceeded other charges against earnings. Thus, the last impact on earnings of the loss on these programs was recorded in 1960.

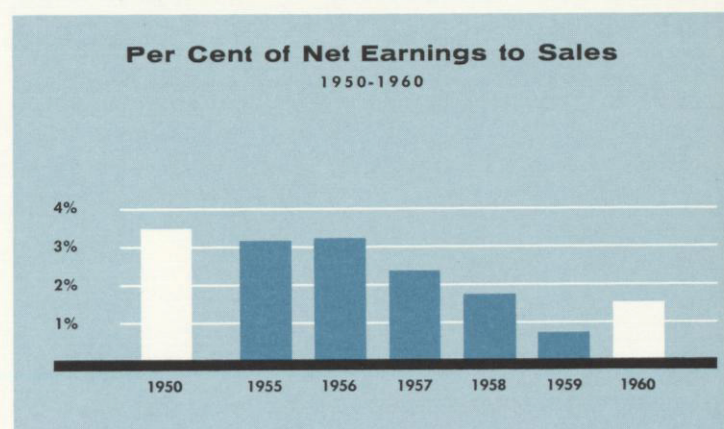
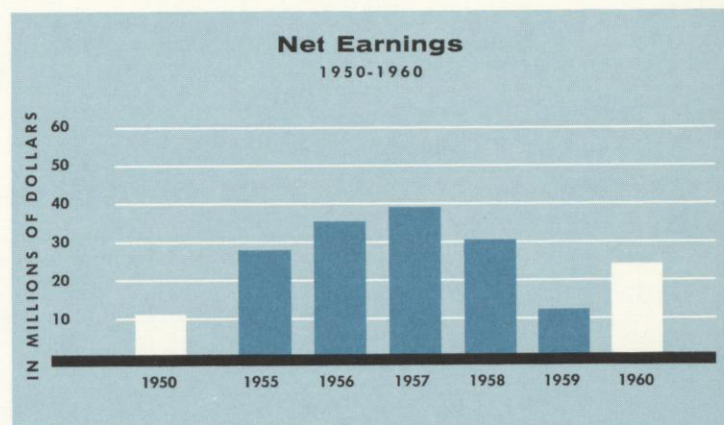
With the loss on 707-720 programs having been fully recognized, total orders received through December 31, 1960, were considered as separate "blocks", or contracts, for financial reporting purposes. Orders received subsequent to 1960 for present 707 and 720 models and orders for new commercial models such as the Model 727 short-to-medium range transport and the turbofan-powered 707 Intercontinental transport will be considered separate programs for financial reporting purposes.

It should be recognized that the inherent uncertainties relative to the magnitude and timing of military programs and the dynamic nature of the commercial jet transport business make over-all financial results difficult to project. With that qualification and based on current programs and schedules, both sales and earnings in 1961 should improve over 1960 levels.

Sales and earnings for the first quarter of 1961 will be proportionately lower than the projections for the year. This is attributable to model changes on the B-52 and Bomarc programs and delivery phasing on the commercial jet programs.

In 1961 and succeeding years, the 707-720 programs, through the reversal of losses reported in previous years, are expected to contribute materially to the annual earnings of the company. The magnitude and duration of this contribution will depend primarily upon the volume and timing of new orders, production cost trends, and the cost of improvements to the aircraft necessary to maintain our competitive leadership in this market.

Sales of 727 aircraft will be recorded when deliveries commence in the latter part of 1963. However, the program will generate developmental and general overhead costs which will be charged against earnings in 1961 and 1962. The

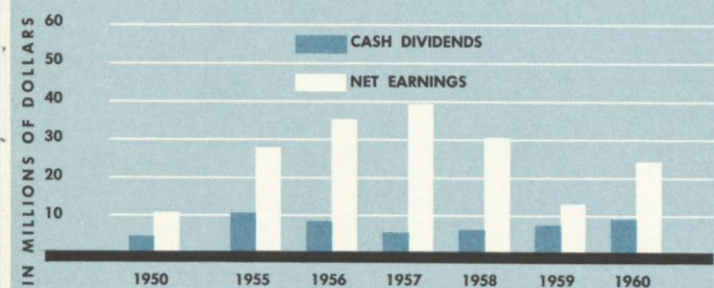


break-even point on the 727 program is currently estimated to be approximately 200 units. Although it is not anticipated that an inventory write-down will be required, it should be recognized that there are serious financial risks inherent in all new aircraft programs.

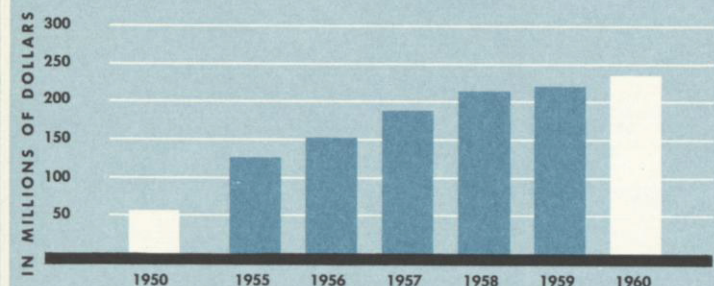
Backlog

At the end of 1960, unfilled orders totaled \$2,139,000,000. When military contracts currently under negotiation become definitive, this amount will be increased by approximately \$400,000,000. Included in the backlog at the end of 1960 was \$732,950,000 applicable to military aircraft and \$612,200,000 applicable to missile and space programs. Commercial orders amounted to \$793,850,000.

Cash Dividends and Net Earnings
1950-1960



Stockholders' Investment
1950-1960



Since the first of the year, we have received orders for twenty-one 707, 720, and 727 aircraft from three airlines, totaling \$95,000,000. This amount has not been included in the backlog.

Facilities

For modernization and expansion of the company's property, plant, and equipment \$27,083,935 was expended. Depreciation and amortization recorded during the year amounted to \$21,084,370. At the year end the gross investment in facilities amounted to \$198,410,048, net investment being \$88,749,198. Included in the gross investment were facilities still in use having an original cost of \$29,739,126 which had been fully depreciated or amortized as of December 31.

Future years will show a high level of expenditure for the physical facilities required by the company's broadening research programs and by the new and advanced technologies involved in the design, development, and production of future aero-space products. Such future requirements include laboratories, test facilities, specialized production equipment, computers and enlarged, modern quarters and equipment for the steadily growing scientific and technical staff.

Renegotiation

In June, 1960, the company received a "Clearance Notice" from the Los Angeles Regional Renegotiation Board expressing its determination that no excessive profits were realized by the company during 1957 from government contracts and subcontracts. A similar determination for 1956 was disclosed in the 1959 stockholders' report.

The petitions of the company for a re-determination of Renegotiation Board findings of excessive profits for the years 1952, 1953, 1954 and 1955 are still pending in the Tax Court of the United States. The determinations of excessive profits for these four years involve net refunds, after applicable federal and state income credits, of \$12.7 million. The required refunds have been paid or provided for in the accounts.

The hearing of the company's appeal for the year 1952, which had been in recess from early 1959 to late in 1960, has recently been concluded. During the recess, litigation seeking the enforcement of the company's subpoena of certain records of the Renegotiation Board was carried on in the United States District Court and in the Court of Appeals for the District of Columbia, resulting in a decision of the Court of Appeals sustaining the company's position on the subpoena issue. The preparation of briefs by the company and by the government is currently in process, and it is possible that a decision will be rendered by the Tax Court during 1961.

Your management believes that earnings recorded for 1958, 1959 and 1960 were not excessive, and hence no provisions for renegotiation refunds have been made for these years.

Federal Income Tax

The Internal Revenue Service has reviewed and agreed to all Federal Income Tax returns of the company through the year 1956, with the exception of certain claims for refunds which are still pending, including a petition filed with the United States Court of Claims. Such claims have not been recorded in the accounts. It is believed that the income tax liability stated on the balance sheet is adequate for the years 1957 through 1960.

Dividends

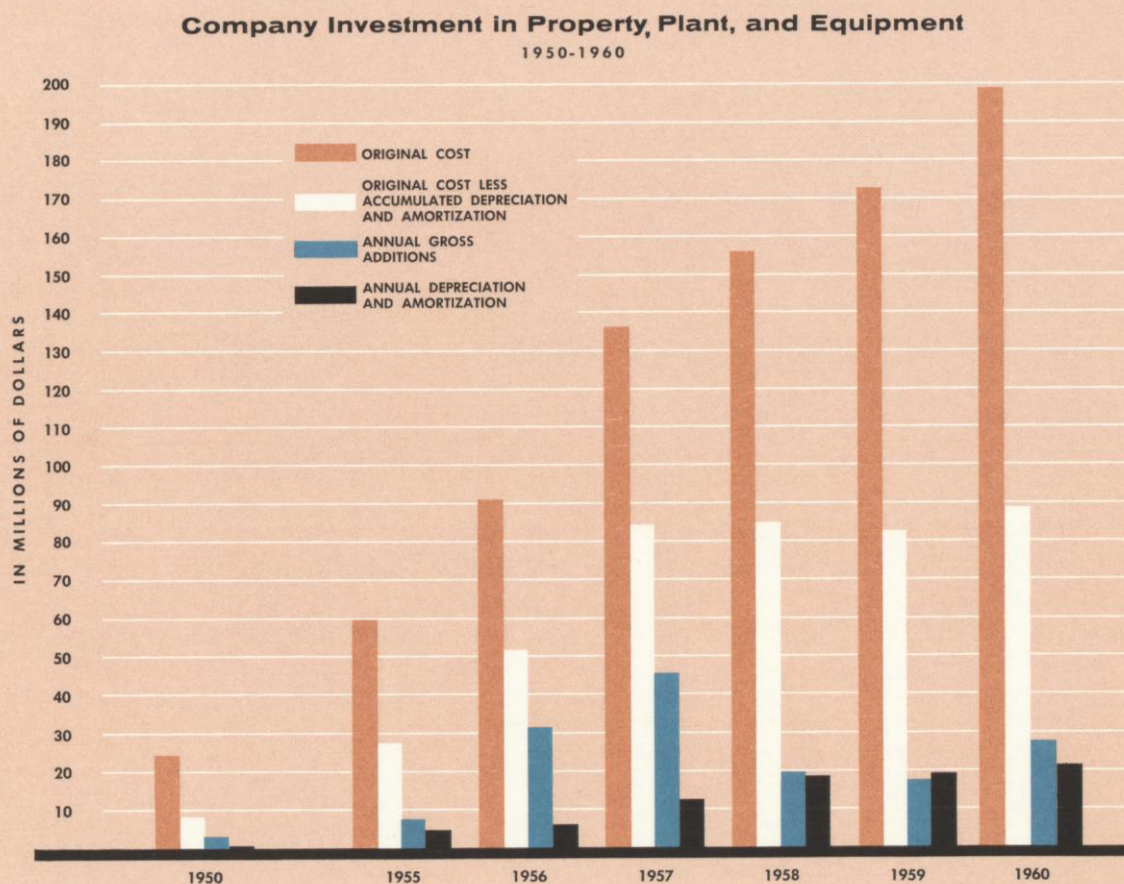
The company has traditionally followed a conservative dividend policy in order to provide funds for plant expansion, research and development and increased working capital. At the present time the company's invested capital, the projected cash flow from operations and the ability to borrow both short term and long term funds are considered adequate to meet current and forecasted fund requirements. Accordingly,

the Board of Directors increased the quarterly cash dividend from 25 to 40 cents and has discontinued the small stock dividend which had been paid annually since 1956. This change was made effective with the 1960 fourth quarter dividend. Total dividends paid during the year amounted to \$9,052,905.

Working Capital and Other Assets

Working capital declined slightly to a year-end level of \$200,069,655. The company's short-term borrowings from banks decreased from \$100 to \$15 million. It is expected that the present credit line of \$100 million will be adequate to meet all requirements for funds during 1961.

Long-term notes receivable, which are principally from foreign airlines, increased to \$16,816,380 during the year. The Export-Import Bank has, to date, financed a significant portion of the company's foreign sales. In such financing, the bank requires a limited participation by the manufacturer.





Looking to the Future

As your company looks to the future it does so from a position of strength tempered by uncertainties in some areas of company interest.

From the standpoint of strength: Divisional operation has resulted in improved efficiency and increased cost consciousness. Greater diversification of sales is a reality. A sound position in the evolving field of missiles and space has been established. World-wide acceptance of the company's commercial aircraft has been achieved and the company now offers models to meet practically all airline requirements.

The financial position of the company is sound and at this time no requirement for equity or other outside financing is seen. We have outstanding scientific and technical capabilities and have a stable and experienced work force.

In the area of uncertainties are: The emphasis and direction of defense spending under the new administration and its policies in regard to taxes, renegotiation, labor relations and other factors of concern to business generally.

Two of the company's projects—the B-52 and Bomarc—are in uncertain position as to

future planning of the military. Neither is funded in the budget for fiscal 1961-62 which was submitted by the out-going administration. Thus both projects could be phased out in 1962 when presently funded contracts will be completed. The company believes strongly in both projects as deterrents to enemy attack and a re-evaluation of their merits may result in additional orders.

Competition both for defense and commercial business is very keen. For defense business we compete not only with others in the aero-space industry but with manufacturers in many diverse fields. In the commercial jet field, in addition to domestic competition, foreign manufacturers are making determined efforts to capture a substantial share of the available market.

However, the basic strength of the company is not measured in backlog of contracts, specific projects or the number of proposals for new business. Rather, strength lies in the total and quality of its resources—technical, manufacturing, administrative, financial and managerial. By these yardsticks your company is strong and looks to 1961—and beyond—with confidence.

President

March 17, 1961

Five Year Condensed Comparative Financial Data

Financial Position

As of December 31,

1960

Current assets	\$ 429,755,339
Current liabilities	229,685,684
Working capital	\$ 200,069,655
Long-term notes receivable	16,816,380
Property, plant, and equipment, net	88,749,198
Other assets	1,903,192
Total	\$ 307,538,425
Less: Long-term debt	70,545,000
Net assets	\$ 236,993,425
Represented by stockholders' investment in:	
Capital stock	\$ 126,560,775
Retained earnings	110,432,650
	\$ 236,993,425
Stockholders' equity per share	\$ 29.73
Ratio of current assets to current liabilities	1.87 to 1

Sales, Earnings and Dividends

Sales	\$1,554,572,612
Earnings before taxes on income	51,762,100
Taxes on income	27,300,000
Net earnings	24,462,100
Cash dividends paid	9,052,905
Net earnings per share	3.07
Cash dividends paid per share	1.14
Income taxes per share	3.42
% earnings before taxes on income to sales	3.33%
% taxes on income to sales	1.76%
% net earnings to sales	1.57%

General Information

Backlog	\$2,139,000,000
Number of authorized shares of common stock	10,000,000
Number of shares outstanding	7,971,647
Average number of employees	81,925
Total wages and salaries	\$ 556,059,987
Gross additions to plant and equipment	27,083,935
Depreciation and amortization	21,084,370
Amortization in excess of normal depreciation	4,574,617
Square feet of floor area:	
Government owned	11,422,005
Boeing owned	6,620,611
Leased	1,709,829

NOTE: Prior years' financial data and statistics include Vertol Aircraft Corporation. Financial data re-stated to give effect to the renegotiation refunds for the years 1952, 1953, 1954, and 1955. All per share figures adjusted to reflect stock dividends and stock splits.

1959	1958	1957	1956
\$ 526,451,990	\$ 540,701,644	\$ 428,230,471	\$ 298,574,433
321,652,050	342,878,817	325,243,917	196,997,781
\$ 204,799,940	\$ 197,822,827	\$ 102,986,554	\$ 101,576,652
2,460,000			
82,731,195	84,955,609	84,192,919	51,568,127
2,114,273	1,755,359		
\$ 292,105,408	\$ 284,533,795	\$ 187,179,473	\$ 153,144,779
70,545,000	70,546,500		
\$ 221,560,408	\$ 213,987,295	\$ 187,179,473	\$ 153,144,779
\$ 126,533,140	\$ 119,936,369	\$ 100,311,910	\$ 89,445,256
95,027,268	94,050,926	86,867,563	63,699,523
\$ 221,560,408	\$ 213,987,295	\$ 187,179,473	\$ 153,144,779
\$ 27.80	\$ 27.04	\$ 24.02	\$ 19.70
1.64 to 1	1.58 to 1	1.32 to 1	1.52 to 1

\$1,648,802,758	\$1,751,935,410	\$1,673,739,917	\$1,096,382,445
26,427,402	63,441,715	80,794,705	74,078,570
13,684,000	33,230,000	41,010,000	38,672,000
12,743,402	30,211,715	39,784,705	35,406,570
7,360,826	7,016,727	6,681,281	8,162,577
1.60	3.82	5.10	4.56
0.92	0.89	0.86	1.05
1.72	4.20	5.26	4.98
1.60%	3.62%	4.83%	6.76%
0.83%	1.90%	2.45%	3.53%
0.77%	1.72%	2.38%	3.23%

\$2,018,000,000	\$2,470,000,000	\$2,482,000,000	\$3,141,000,000
10,000,000	10,000,000	10,000,000	10,000,000
7,970,640	7,768,735	7,351,195	7,028,155½
92,542	95,427	99,252	76,036
\$ 579,247,316	\$ 565,821,702	\$ 536,641,276	\$ 400,467,589
18,088,695	19,531,629	45,608,652	31,208,314
19,469,448	19,096,136	12,895,867	7,071,904
4,516,168	4,975,186	3,793,121	2,836,855
11,724,730	11,702,042	11,270,294	9,423,243
6,447,952	6,132,590	5,994,492	4,218,684
1,764,634	2,177,084	2,319,679	2,303,176

Balance Sheet

BOEING AIRPLANE COMPANY

December 31, 1960

Assets

CURRENT ASSETS:

Cash	\$ 28,829,553
Accounts receivable—United States Government contracts (including unreimbursed costs and fees under cost reimbursement type contracts of \$96,111,151)	145,381,200
Other accounts and notes receivable	18,711,342
Inventories, less advances and progress payments of \$356,355,796	233,768,798
Prepaid expenses	<u>3,064,446</u>
TOTAL CURRENT ASSETS	\$429,755,339

LONG-TERM NOTES RECEIVABLE	16,816,380
----------------------------------	------------

PROPERTY, PLANT, AND EQUIPMENT, at cost:

Land (\$6,410,966) and buildings	\$110,649,327	
Machinery and equipment	<u>87,760,721</u>	
	\$198,410,048	
Less allowance for accumulated depreciation and amortization ..	<u>109,660,850</u>	88,749,198

DEFERRED CHARGES	<u>1,903,192</u>	
		<u>\$537,224,109</u>

Liabilities and Stockholders' Investment

CURRENT LIABILITIES:

Notes payable to banks		\$ 15,300,000
Accounts payable		122,566,631
Salaries and wages		50,377,906
Payroll, property, and excise taxes		7,161,899
Allowance for 1954 and 1955 renegotiation, net of taxes		7,767,850
Federal taxes on income		<u>26,511,398</u>
TOTAL CURRENT LIABILITIES		\$229,685,684

LONG-TERM DEBT:

5% Sinking Fund Debentures	\$ 40,000,000	
4½% Convertible Subordinated Debentures	<u>30,545,000</u>	70,545,000

STOCKHOLDERS' INVESTMENT:

Capital stock, par value \$5 a share—		
Authorized, 10,000,000 shares (610,900 shares reserved for conversion of 4½% Convertible Subordinated Debentures)		
Issued and outstanding, 7,971,647 shares at stated value	\$126,560,775	
Retained earnings	<u>110,432,650</u>	<u>236,993,425</u>
		<u>\$537,224,109</u>

See notes to financial statements.

Statement of Net Earnings

BOEING AIRPLANE COMPANY

Year Ended December 31, 1960

Sales		\$1,554,572,612
Other income		1,492,702
		<u>\$1,556,065,314</u>
Costs and expenses	\$1,496,915,152	
Interest and debt expense	7,388,062	
Federal taxes on income	27,300,000	1,531,603,214
		<u>\$ 24,462,100</u>
NET EARNINGS FOR THE YEAR		
		<u>\$ 24,462,100</u>
Provision for depreciation and amortization for the year	\$ 21,084,370	

See notes to financial statements.

Statement of Stockholders' Investment

BOEING AIRPLANE COMPANY

Year Ended December 31, 1960

	Capital Stock Shares	Amount	Retained Earnings
Balance at January 1, 1960 (after transfer from retained earnings to the capital stock account of \$98,460,853)	7,521,911	\$119,945,754	\$88,534,848
Shares issued in connection with the acquisition of Vertol Aircraft Corporation (includes \$4,650,302 transferred from retained earnings to capital stock)	448,954	6,594,885	6,488,607
Net earnings for the year			24,462,100
Shares sold to officers and employees at market value under the Incentive Compensation Plan	782	20,136	
Cash dividends paid, \$1.15 a share			<u>(9,052,905)</u>
Balance at December 31, 1960 (after transfer from retained earnings to the capital stock account of \$103,111,155)	<u>7,971,647</u>	<u>\$126,560,775</u>	<u>\$110,432,650</u>

See notes to financial statements.

Notes to Financial Statements

INVENTORIES:

Inventories are composed of:

Fixed price type contracts in process	\$558,764,307
Commercial spare parts	21,906,656
General stock materials	9,453,631
	<u>\$590,124,594</u>
Less advances and progress payments	356,355,796
	<u>\$233,768,798</u>

Military fixed price type contracts in process are stated at the total of direct costs and overhead applicable thereto, less the estimated average cost of deliveries based on the estimated total cost of the contracts. Work in process on commercial programs is stated in the same manner, except that applicable research, developmental, administrative, and other general expenses are charged directly to earnings as incurred.

To the extent that estimated total costs of units scheduled for production, determined in the above manner, are expected to be greater than total sales price, the portion of such excess related to work in process is currently charged to earnings. The resultant inventory is stated at estimated proportionate sales value.

Commercial spare parts and general stock materials are stated at average cost, not in excess of realizable value.

RENEGOTIATION: The Renegotiation Board has unilaterally determined that the company realized excessive profits for the years 1952 through 1955 and has

issued a clearance for the years 1956 and 1957. The required refunds have been paid or provided for in the accounts and appeals have been taken to the Tax Court of the United States.

The company cannot predict what the Board's action will be for the years 1958, 1959, and 1960. In view of this uncertainty and the belief of the company that no excessive profits were realized, no provision has been made for renegotiation refunds for any of these years.

LONG-TERM DEBT AND RESTRICTIONS ON RETAINED EARNINGS: Sinking fund requirements under the 5% Sinking Fund Debentures, due in 1978, are \$2,700,000 annually beginning in 1964.

The 4½% Convertible Subordinated Debentures, due in 1980, are convertible at two shares for each \$100 principal amount. The annual sinking fund requirements beginning in 1968 amount to \$1,750,000 less credits for previously converted debentures.

The indentures under which the debentures were issued place various restrictions on the use of retained earnings for the payment of cash dividends or acquisition of the company's capital stock or subordinated indebtedness. At December 31, 1960, the maximum amount of retained earnings restricted under these indentures was \$40,195,285.

RETIREMENT PLAN: Under the company's non-contributory retirement plan, a charge of \$15,183,303 has been made in the accounts for the year 1960, of which \$13,547,816 represents current service and \$1,635,487 is applicable to past service. At December 31, 1960, the past service liability not recognized in the accounts was estimated at \$9,000,000.

STOCK OPTIONS AND INCENTIVE COMPENSATION: Following is a summary of changes during the year ended December 31, 1960 in stock options granted at market prices under the company's restricted stock option plan and stock option agreements with certain former employees of Vertol Aircraft Corporation—

	Options granted		Options exercisable	
	Shares	Amount	Shares	Amount
Balance at January 1, 1960	106,598	\$3,871,239	—	\$ —
Assumption of stock option agreements with certain former employees of Vertol Aircraft Corporation	23,782	644,514	715	20,292
Options which were granted or became exercisable during 1960	650	25,025	16,752	589,464
Options cancelled	(4,432)	(181,814)		
Balance at December 31, 1960	<u>126,598</u>	<u>\$4,358,964</u>	<u>17,467</u>	<u>\$609,756</u>

An additional 107,717 shares are available for future grants under the stock option plan.

Incentive compensation provided for the year 1960 was \$2,900,000.

Accountants' Report

TOUCHE, ROSS, BAILEY & SMART CERTIFIED PUBLIC ACCOUNTANTS

610 WASHINGTON BUILDING
SEATTLE 1, WASHINGTON

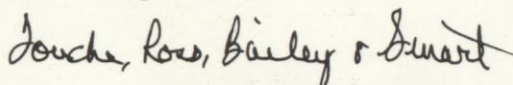
March 17, 1961

Board of Directors
Boeing Airplane Company
Seattle, Washington

We have examined the accompanying balance sheet of Boeing Airplane Company as of December 31, 1960 and the related statements of net earnings and stockholders' investment for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were unable to obtain satisfactory confirmations of receivables from the United States by direct communication, but we satisfied ourselves as to such accounts by other auditing procedures.

In our opinion, subject to the effect of renegotiation refunds, if any, that may be required for years subsequent to 1957, the financial statements referred to above present fairly the financial position of Boeing Airplane Company at December 31, 1960 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Also, in our opinion, the action of the Board of Directors on March 17, 1961, in setting aside the sum of \$2,900,000 for the year 1960 under the Incentive Compensation Plan for Officers and Employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.



Certified Public Accountants

General Counsel

HOLMAN, MICKELWAIT, MARION, BLACK & PERKINS

General Auditors

TOUCHE, ROSS, BAILEY & SMART

Transfer Agent

FIRST NATIONAL CITY TRUST COMPANY, NEW YORK CITY

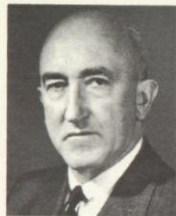
Registrar

THE FIRST NATIONAL CITY BANK OF NEW YORK, NEW YORK CITY

BOEING AIRPLANE COMPANY

GENERAL OFFICES • 7755 EAST MARGINAL WAY • SEATTLE 24, WASHINGTON

Officers



WILLIAM M. ALLEN
President



C. L. EGTVEDT
Chairman



J. E. SCHAEFER
Vice Chairman



WELLWOOD E. BEALL
Senior Vice President



EDWARD C. WELLS
Vice President—
Engineering



J. O. YEASTING
Vice President—General
Manager, Transport Div.



C. B. GRACEY
Vice President—General
Manager, Wichita Div.



FRED P. LAUDAN
Vice President—
Manufacturing



A. F. LOGAN
Vice President—
Industrial Relations



J. E. PRINCE
Vice President—
Administration,
Secretary



J. P. MURRAY
Vice President



GEORGE C. MARTIN
Vice President—Asst.
Gen. Mgr., Aero-Space
Div.



N. D. SHOWALTER
Vice President—
Inter'l. Operations



LYSLE A. WOOD
Vice President—General
Mgr., Aero-Space Div.



J. B. CONNELLY
Vice President—Asst.
Gen. Mgr., Trans. Div.



T. E. GAMLEM
Vice President—Asst.
Gen. Mgr., Transport
Div.



ROBERT H. JEWETT
Vice President—Asst.
Gen. Mgr., Aero-Space
Div.



GEORGE SCHAIRER
Vice President—
Research and Develop't.



DON R. BERLIN
Vice President—General
Manager, Vertol Div.



H. W. HAYNES
Vice President—
Finance, and Controller



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Vice President—
Gen. Mgr.,
Ind. Prod. Div.



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Treasurer

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Senior Vice President

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Cannery Machines
Company, Seattle

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New York City

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Manufacturing

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President, Pacific Car
and Foundry Company,
Renton

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Chairman, Simpson
Timber Company,
Seattle

J. E. SCHAEFER
Vice Chairman

DIETRICH SCHMITZ
Chairman, Washington
Mutual Savings Bank,
Seattle

EDWARD C. WELLS
Vice President—
Engineering

J. O. YEASTING
Vice President—General
Manager, Transport Div.

*Deceased Jan. 23, 1961

